



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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July 18, 2002

### Wall Street Assesses the Administration's Latest Budget Projections

Dear Democratic Colleague,

I thought that you might appreciate seeing the reaction of Goldman Sachs to the Administration's Mid-Session Review of the budget. The Mid-Session Review portrays the return of deficits as temporary. However, Goldman Sachs, one of Wall Street's most respected investment houses, believes that we now face a far more significant, long-term deficit problem.

We regard the Bush Administration's updated budget forecast profile as being still far too optimistic. While their estimate for the fiscal 2002 budget balance has moved to match ours, at a \$165-billion deficit, the official view regarding fiscal years 2003-2007 combined is for a small surplus, whereas we project a deficit of nearly \$800 billion.

The official budget forecasts in our opinion make overly aggressive assumptions on both sides of the ledger. They reflect a swift rebound in tax receipts, which appears very improbable, particularly in light of recent market developments. Moreover, the Administration forecasts presume that spending growth can be held well below the rate of increase in the nominal economy, which is highly unlikely given that key restraint mechanisms have collapsed.

Goldman Sachs US Daily  
*Official Budget Balance Forecasts Still Much Too Optimistic*  
July 17, 2002

In about a month, the Congressional Budget Office (CBO) will release its mid-year update of the budget outlook, which will give the Congress another point of reference. However, we must bear in mind that the financial markets are key arbiters of the credibility of budget forecasts.

Sincerely,

John M. Spratt, Jr.  
Ranking Member